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Outstanding! How “Large” Rural Community Banks Can Obtain Top CRA Rating

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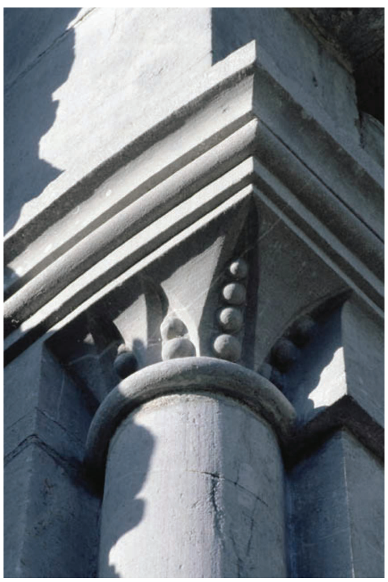

Some community banks operating in rural areas and evaluated as “large” under the Community Reinvestment Act (CRA) may believe that it’s difficult, if not impossible, to achieve an outstanding CRA rating. Not so.

One rural national bank achieved the top CRA rating through strong lending patterns and community development (CD) activities resulting from partnering with others in the community. Here’s how the bank did it.

First, some perspective. The bank is owned by a one-bank holding company and has total assets of about $400 million. It operates nine branches and three remote ATMs throughout several contiguous counties. About 13 percent of the census tracts in the bank’s service area are identified as moderate-income and none are low-income, but nearly 40 percent of the families in the assessment area are low- and moderate-income. The bank’s competition is considered very strong, largely from branches of well-known regional banks. Nevertheless, the bank has strong lending levels, and a substantial majority of its lending is within its assessment area. Although CD loan, investment and services opportunities are limited in the area, the bank identified a need for affordable housing for low- and moderate-income elderly individuals and worked to meet that need.

Lending test

The bank demonstrated excellent borrower and geographic distribution of its small loans to businesses and its residential real estate mortgage lending, the latter being its predominant lending activity. Management demonstrated that it knows its customers and finds ways to assist them. For example, management will accept additional collateral from a third party to meet a down-payment shortfall for first-time homebuyers.

CD activities

Bank management responded to the need for affordable housing for low- and moderate-income elderly individuals by partnering with a local county housing development corporation and another financial institution to create a structure to build affordable housing. Their efforts created opportunities for CD loans, investments, and services. The bank's work in creating these opportunities and making the most of them resulted in positive CRA consideration under the lending, investment, and services test.

Two bank employees devoted significant technical resources for more than one year to help establish and operate the partnership that would finance the affordable housing. The bank received positive consideration under the services test for providing this technical expertise.

The partnership sold low-income housing tax credits to raise funds to build affordable housing for low- and moderate-income elderly individuals. After helping to create the partnership, the bank invested more than $600,000 in it. As a limited partner, the bank received low-income housing tax credits and positive CRA consideration under the investment test.

Finally, the affordable housing project needed additional funds to complete construction, and the bank made a large CD loan for this purpose. All told, the bank has invested over $1.2 million in CD loans to construct this affordable housing project. The bank received positive CRA consideration under the lending test for these CD loans.

Bank management recognized a community need and, in partnership with others, worked hard to develop the opportunities and structure to meet this need. Along the way, it contributed technical expertise and made investments and loans which resulted in positive CRA consideration under all three parts of the large bank CRA examination. Well done!

What can your institution do to achieve an Outstanding CRA rating?

- Understand your assessment area and your unique performance context. Make sure the examiners understand these, too.
- Make a special effort to reach low- and moderate-income areas and low- and moderate-income customers. Understanding barriers to credit can help. For example, determine whether the cost of housing is rising too fast because of economic growth — or whether low median incomes are the primary barrier to homeownership. Tailor your initiatives accordingly.
- Understand your lending patterns versus the demographics of your assessment area. Examiners will reference these data. For example, are you making small loans to businesses in low- or moderate-income geographies where demographic data indicate the presence of businesses, especially small businesses; or are you lending only to businesses located in middle- and upper-income areas?
- Partner with community development corporations (CDCs) and other community groups. As examiners have found, many have excellent ideas, but need a bank partner to get things off the ground.
- Think outside the box. Community development projects do not have to be multi-million-dollar projects. A viable CD project can be as small as one or two houses that act as catalysts to help

revitalize a lower-income neighborhood by attracting motivated homeowners, or a program that positively impacts community development by training and counseling job-seeking lower-income residents.

- Provide sufficient documentation. In addition to dollar amounts, keep records that show why an activity promotes community development and how your bank's involvement is making a difference. The only way to get credit for loans, investments, and services is to make sure the examiner knows about them.

At a Glance

Multi-Family Rural Housing Resources

USDA Rural Rental Housing Loan Guarantee Program (Section 538) provides loan guarantees up to 90 percent to lenders for the development of multifamily housing facilities in rural areas of the U.S. Loan guarantees are provided for the acquisition, construction, or rehabilitation of rural multifamily housing. The interest rate for a guaranteed loan must not exceed the maximum allowable rate specified by the USDA. The rate must be fixed over the term of the loan.

USDA Farm Labor Housing Loans and Grants (Section 514/516) are provided to buy, build, improve, or repair housing for farm laborers, including persons whose income is earned in aquaculture (fish and oyster farms) and those engaged in on-farm processing. Funds can be used to purchase a site or a leasehold interest in a site; to construct or repair housing, day care facilities, or community rooms; to pay fees to purchase durable household furnishings; and to pay construction loan interest.

USDA Rural Rental Housing Loan Program (Section 515) is adaptable for participation by a wide variety of owners. Loans can be made to individuals, trusts, associations, partnerships, limited partnerships, state or local public agencies, consumer cooperatives, and profit or nonprofit corporations. Rural Rental Housing Loans are direct, competitive mortgage loans made to provide affordable multifamily rental housing for very low-, low-, and moderate-income families; the elderly; and persons with disabilities. Loans are for up to 50 years at an effective 1 percent interest rate.

Federal Low-Income Housing Tax Credits are not strictly a rural program, but are used to subsidize the construction and rehabilitation of affordable apartments throughout the country. The tax credits are a dollar-for-dollar credit against federal tax liability of investors, over a 15-year compliance period. Tax credits are allocated to states that, in turn, award them to developers on a competitive basis. Developers then sell the credits to investors, generally for-profit corporations, and investment funds, generating the equity necessary to complete their projects. Banks are currently the largest group of purchasers of tax credits.